Making Gains In South Korea

While reviving the country's economy, US banks turn profits.

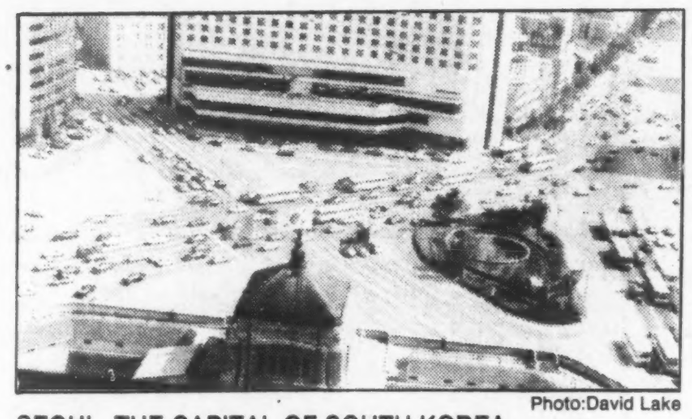


Photo:David Lake

SEOUL, THE CAPITAL OF SOUTH KOREA.

By David Lake

AMERICAN BANKS have played a major role in the economic miracle of South Korea. Short on natural resources, the country has always been dependent on access to foreign funds and the services offered by international financial institutions.

Foreign banks continue to be an indispensable fact of life for Korea, whose main asset is a determined labor force. While Korea's Gross National Product (GNP) growth is hovering around 10%, the country is the world's fourth-largest sovereign borrower. To boost GNP to the $90 billion level, Korean debt has risen to an estimated $47.4 billion this year.

Korea, however, is cutting back on foreign borrowing. And there has been a dramatic change in the country's business environment, some banks say.

Due to a new administrative finance directive, the Korean government hopes to use only half of the $5.7 billion in foreign loans that it has allotted itself for the entire year. As of July 1986, the government had $1.7 billion in foreign debt outstanding.

Though there is an element of risk when dealing with Korea, financing expansion has been a profitable endeavor for American banks. Of the 47 foreign banks operating branches in Korea, American subsidiaries are the most profitable.

In 1985, the top 10 U.S. banks earned $46 million from lending to Korea. Leading the way were Citibank ($10 million), Bank of America ($8 million), Chase Manhattan Bank ($6.5 million), Manufacturers Hanover Trust Co.($5 million), and Bankers Trust Co. ($3.4 million). The remaining $13.1 million was earned by the other five banks. That compares with combined earnings of $5.6 million for the five most profitable non-U.S. concerns.

"American banks are very important to our success," says Chul Kyoo Shin, senior vice president of Hyundai Engineering and Construction. "Their information network is as important to us as their lending capability. We are online with Citibank for information on world money markets. If we want to know the Eurodollar rate, we just push a button."

Hyundai Engineering and Construction is at the center of the powerful Hyundai Group, with total sales of about $15 billion. With engineering projects from Vancouver to Iraq, Hyundai Engineering has more than $4 billion in outstanding contracts.

The company's biggest project cost Saudi Arabia $940 million — 40 banks worked to arrange operational funds and other services necessary to complete the deal. Hyundai Engineering's largest financing was a $100 million, 12-year floating-rate note underwritten by Long-term Credit Bank of Japan and the Korean Exchange Bank.

"To smoothly run our projects overseas, foreign banks are a must," says Mr. Shin. "We borrow money and we use some very sophisticated services. But whether they [banks] are located in Seoul or New York does not matter. I can just pick up the phone and make a deal. It is the pricing that matters."

'A Good Country for Americans'

According to Sam Clark, general manager of the Seoul branch of Security Pacific National Bank, "Korea has been a good country for Americans. But it's losing some of its appeal. Back in the 1970s, we concentrated on lending to Korean banks and government bodies. Private sector business was done, but banks were selective and achieved high margins.

"In the last five years," Mr. Clark continues, "30 foreign banks have entered, and there has been a scramble for business. Korean borrowers have become sophisticated, and spreads have dropped. We used to guarantee local corporate bonds at 1.5% per annum, now some do it as low as 70 basis points. For the inherent risk, the return is ridiculous."

Though profitability may drop in the future, high returns have made U.S. banks the public whipping boy. American bankers are angered by the "profit monger" label that has been attached

Continued on Page 15

David Lake writes on business from Montreal, Canada.

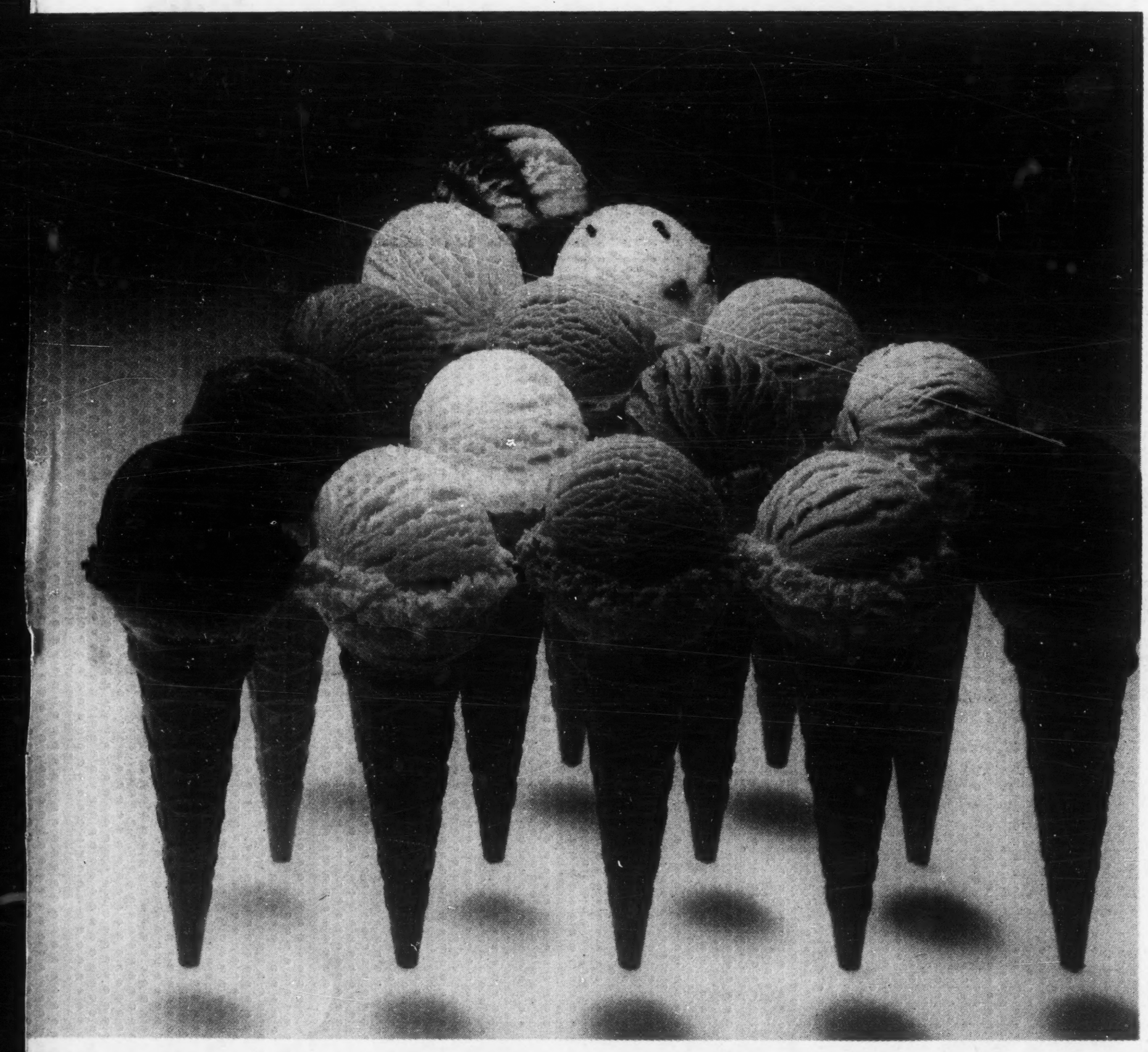
South Korea's Gross National Product has been rising consistently in the past few years and is expected to continue to grow at a rate of 7% per year until 1990.

Although the amount of Korean debt is extremely high — about $47 billion — the country's debt-service record is excellent.

Furthermore, the United States has been pressuring the Korean government to liberalize its banking industry. All this could lead to greater U.S. banking expansion in this country, but a new government directive seeks to cut in half the amount of foreign loans Korea has.

The top five U.S. bank holding companies hold 72%, or 444 offices, of the total number of offices in the Pacific Rim operated by the top 25 U.S. bank holding companies.

The subsequent five U.S. bank holding companies hold 17% of the offices, or 106 offices. And the remaining 15 of the top 25 holding companies operate 11%, or 68 offices. ■



s you just desserts.

franchising in 1981 after uniting our own affiliates in 11 western states under the First Interstate name.

Since then, franchisees have come aboard from 10 states–Hawaii, Alaska, Montana, Wyoming, Colorado, Wisconsin, New Mexico, Iowa, North Dakota and Indiana. These operations represent 37 banks with 128 offices and $4.5 billion in combined assets.

Here's how one franchise bank profited immediately after changing its name:

First Interstate Bank of Wisconsin, positioned in America's dairy heartland, helped our trading division arrange the sale of $1 million worth of premium cattle to a major dairy products company in South Korea. The bank quickly found sellers and established itself as an organization that could handle complex international trade agreements.

To learn more about our franchising program, call Shirley Hosoi, President, First Interstate System, Inc., at (213) 614-3043. She'll give you the scoop.

First Interstate Bancorp

US Banks in the Pacific Rim By Country

Based on Data for Dec. 31, 1985

Compiled by American Banker Copyright 1986

	Branches	Banks	Merch.	Fin. Co.	Invest.	Rep.	Other	Total
AUSTRALIA								
BankAmerica Corp.	0	0	1	0	0	1	2	4
Bank of Boston Corp.	0	0	3	0	0	1	0	4
Bankers Trust New York Corp.	0	1	0	0	0	0	0	1
Chase Manhattan Corp.	0	1	0	0	0	1	2	4
Chemical New York Corp.	0	0	1	0	0	0	0	1
Citicorp	0	7	0	0	0	6	88	101
Continental Illinois Corp.	0	0	0	0	0	1	0	1
First Chicago Corp.	0	1	1	0	0	1	0	3
First Interstate Bancorp	1	0	0	0	0	1	0	2
Irving Bank Corp.	0	0	1	0	0	1	0	2
Manufacturers Hanover Corp.	0	0	1	1	0	1	0	3
Mellon National Corp.	0	0	1	0	0	2	0	3
J.P. Morgan & Co.	0	0	1	0	0	0	0	1
NCNB Corp.	0	0	1	0	0	1	0	2
PNC Financial Corp.	0	0	1	0	0	0	0	1
Security Pacific Corp.	0	0	1	0	1	0	0	2
Australia Totals (16 Banks)	**1**	**10**	**13**	**1**	**1**	**17**	**92**	**135**
BRUNEI								
BankAmerica Corp.	2	0	0	0	0	0	0	2
CHINA								
BankAmerica Corp.	0	0	0	0	0	3	0	3
Chase Manhattan Corp.	0	0	0	0	0	1	0	1
Chemical New York Corp.	0	0	0	0	0	1	0	1
Citicorp	0	0	0	0	0	2	2	4
First Chicago Corp.	0	0	0	0	0	1	0	1
First Interstate Bancorp	0	0	0	0	0	1	0	1
Manufacturers Hanover Corp.	0	0	0	0	0	2	0	2
China Totals (7 Banks)	**0**	**0**	**0**	**0**	**0**	**11**	**2**	**13**
GUAM								
Chase Manhattan Corp.	1	0	0	0	0	0	0	1
HONG KONG								
BankAmerica Corp.	9	0	1	0	1	0	1	12
Bank of Boston Corp.	1	0	0	0	0	0	1	2
Bankers Trust New York Corp.	1	0	1	0	0	0	0	2
Chase Manhattan Corp.	1	0	1	0	0	0	19	21
Chemical New York Corp.	1	0	1	1	0	0	0	3
Citicorp	31	2	0	0	0	0	22	55
Continental Illinois Corp.	1	0	0	0	0	0	1	2
First Chicago Corp.	1	0	1	0	0	0	1	3
First Interstate Bancorp	2	0	1	0	0	0	0	3
Irving Bank Corp.	1	1	0	0	0	0	0	2
Manufacturers Hanover Corp.	1	0	1	2	0	0	0	4
Marine Midland Banks Inc.	0	0	0	0	0	1	1	2
Mellon National Corp.	1	0	0	0	0	0	0	1
J.P. Morgan & Co.	1	0	1	0	0	0	1	3
NCNB Corp.	1	0	0	0	0	0	1	2
Norwest Corp.	0	1	0	0	0	0	0	1
PNC Financial Corp.	0	0	0	0	0	0	1	1
Security Pacific Corp.	16	1	0	2	1	0	1	21
Wells Fargo & Co.	1	0	0	0	0	0	0	1
Hong Kong Totals (19 Banks)	**70**	**5**	**8**	**5**	**2**	**1**	**50**	**141**
INDONESIA								
BankAmerica Corp.	2	0	0	1	0	0	0	3
Chase Manhattan Corp.	1	0	0	1	0	0	1	3
Chemical New York Corp.	0	0	0	1	0	1	0	2
Citicorp	2	0	0	0	0	0	1	3
Continental Illinois Corp.	0	0	0	0	0	1	0	1
First Chicago Corp.	0	0	0	0	0	1	0	1
First Interstate Bancorp	0	0	0	0	0	1	0	1
J.P. Morgan & Co.	0	0	0	0	0	1	0	1
Manufacturers Hanover Corp.	0	0	0	1	0	1	0	2
Indonesia Totals (9 Banks)	**5**	**0**	**0**	**4**	**0**	**6**	**2**	**17**
JAPAN								
BankAmerica Corp.	2	0	0	1	0	0	1	4
Bank of Boston Corp.	1	0	0	0	0	0	0	1
Bankers Trust New York Corp.	1	0	1	0	0	0	0	2
Chase Manhattan Corp.	1	0	0	1	0	0	2	4
Chemical New York Corp.	1	1	1	2	0	1	0	6
Citicorp	6	0	0	0	0	0	56	62
Continental Illinois Corp.	2	0	0	0	0	0	0	2
First Chicago Corp.	1	0	0	1	0	0	0	2
First Interstate Bancorp	2	0	0	0	0	0	0	2
InterFirst Corp.	0	0	0	0	0	1	0	1
Irving Bank Corp.	2	0	0	0	0	0	0	2
Manufacturers Hanover Corp.	2	0	1	1	0	0	0	4
Marine Midland Banks Inc.	0	0	0	0	0	1	1	2
Mellon National Corp.	1	0	0	0	0	0	0	1
J.P. Morgan & Co.	1	0	0	0	0	0	1	2
RepublicBank Corp.	0	0	0	0	0	1	0	1
Security Pacific Corp.	1	0	1	2	1	1	0	6
Texas Commerce Bancshares Inc.	0	0	0	0	0	1	0	1
Wells Fargo & Co.	1	0	0	0	0	0	0	1
Japan Totals (19 Banks)	**25**	**1**	**4**	**8**	**1**	**6**	**61**	**106**
KOREA								
BankAmerica Corp.	2	0	0	0	0	1	1	4
Bank of Boston Corp.	1	0	0	0	0	0	0	1
Bankers Trust New York Corp.	1	0	0	0	0	0	0	1
Chase Manhattan Corp.	1	0	0	0	0	0	1	2

	Branches	Banks	Merch.	Fin. Co.	Invest.	Rep.	Other	Total
KOREA (Continued)								
Chemical New York Corp.	1	0	1	0	0	0	0	2
Citicorp	2	0	0	0	0	0	2	4
Continental Illinois Corp.	1	0	0	0	0	0	0	1
First Chicago Corp.	1	0	0	0	0	0	0	1
Manufacturers Hanover Corp.	1	0	0	4	0	0	0	5
Marine Midland Banks Inc.	0	0	0	0	0	1	0	1
Mellon National Corp.	0	0	0	0	0	1	0	1
J.P. Morgan & Co.	0	0	0	0	0	1	0	1
RepublicBank Corp.	0	0	0	0	0	1	0	1
Security Pacific Corp.	1	0	0	0	0	0	0	1
Wells Fargo & Co.	1	0	0	0	0	0	0	1
Korea Totals (15 Banks)	**13**	**0**	**1**	**4**	**0**	**5**	**4**	**27**
MALAYSIA								
BankAmerica Corp.	1	0	0	1	0	0	1	3
Chase Manhattan Corp.	1	0	0	0	0	0	0	1
Chemical New York Corp.	0	1	0	0	0	1	0	2
Citicorp	3	0	0	0	0	0	1	4
Manufacturers Hanover Corp.	0	0	0	0	0	1	0	1
J.P. Morgan & Co.	0	0	0	0	0	1	0	1
Security Pacific Corp.	1	0	0	0	0	0	0	1
Malaysia Totals (7 Banks)	**6**	**1**	**0**	**1**	**0**	**3**	**2**	**13**
NEW ZEALAND								
Security Pacific Corp.	0	0	1	0	0	0	0	1
PHILIPPINES								
BankAmerica Corp.	1	0	0	1	0	0	1	3
Bank of Boston Corp.	1	0	0	0	0	0	0	1
Bankers Trust New York Corp.	1	0	0	0	0	0	0	1
Chase Manhattan Corp.	1	0	0	0	0	0	0	1
Chemical New York Corp.	1	0	0	0	0	0	0	1
Citicorp	3	37	0	0	0	0	21	61
Continental Illinois Corp.	0	0	0	0	0	1	0	1
First Chicago Corp.	0	0	0	0	0	0	1	1
First Interstate Bancorp	1	0	0	0	0	0	0	1
Irving Bank Corp.	0	0	0	0	0	1	0	1
Manufacturers Hanover Corp.	1	0	0	0	0	0	0	1
Marine Midland Banks Inc.	0	0	0	0	0	1	0	1
Mellon National Corp.	0	0	0	0	0	1	0	1
J.P. Morgan & Co.	0	0	0	0	0	1	0	1
Security Pacific Corp.	1	0	0	0	0	0	0	1
Philippines Totals (15 Banks)	**11**	**37**	**0**	**1**	**0**	**5**	**23**	**77**
SINGAPORE								
BankAmerica Corp.	1	0	1	1	0	0	1	4
Bank of Boston Corp.	1	0	0	0	0	0	0	1
Bankers Trust New York Corp.	1	0	1	0	0	0	0	2
Chase Manhattan Corp.	1	0	1	0	0	0	2	4
Chemical New York Corp.	1	0	1	1	0	0	0	3
Citicorp	4	1	0	0	0	0	9	14
Continental Illinois Corp.	1	0	0	0	0	0	1	2
First Chicago Corp.	1	0	1	0	0	0	1	3
First Interstate Bancorp	1	0	0	0	0	0	0	1
InterFirst Corp.	1	0	0	0	0	0	0	1
Irving Bank Corp.	1	0	1	0	0	0	0	2
Manufacturers Hanover Corp.	1	0	0	0	0	0	0	1
Marine Midland Banks Inc.	0	0	0	0	0	1	1	2
J.P. Morgan & Co.	1	0	1	0	0	0	0	2
RepublicBank Corp.	1	0	0	0	0	0	0	1
Security Pacific Corp.	2	1	1	1	1	0	1	7
Wells Fargo & Co.	0	0	0	0	0	1	0	1
Singapore Totals (17 Banks)	**19**	**2**	**8**	**3**	**1**	**2**	**16**	**51**
TAIWAN								
BankAmerica Corp.	1	0	0	0	0	0	1	2
Bank of Boston Corp.	1	0	0	0	0	0	0	1
Bankers Trust New York Corp.	1	0	0	0	0	0	0	1
Chase Manhattan Corp.	1	0	0	0	0	0	0	1
Chemical New York Corp.	1	0	0	0	0	0	0	1
Citicorp	1	0	0	0	0	0	5	6
Continental Illinois Corp.	1	0	0	0	0	0	0	1
First Interstate Bancorp	1	0	0	0	0	0	0	1
Irving Bank Corp.	1	0	0	0	0	0	0	1
Manufacturers Hanover Corp.	1	0	0	1	0	0	0	2
Mellon National Corp.	0	0	0	0	0	1	0	1
J.P. Morgan & Co.	1	0	0	0	0	0	0	1
RepublicBank Corp.	0	0	0	0	0	1	0	1
Security Pacific Corp.	0	0	0	0	0	1	0	1
Taiwan Totals (14 Banks)	**11**	**0**	**0**	**1**	**0**	**3**	**6**	**21**
THAILAND								
BankAmerica Corp.	1	0	0	0	0	0	1	2
Chase Manhattan Corp.	1	0	0	0	0	0	0	1
Chemical New York Corp.	0	0	0	0	0	1	0	1
Citicorp	1	0	0	0	0	0	2	3
Continental Illinois Corp.	0	0	0	0	0	1	0	1
First Interstate Bancorp	0	0	0	0	0	1	0	1
Irving Bank Corp.	0	0	0	0	0	1	0	1
Manufacturers Hanover Corp.	0	0	0	0	0	1	0	1
Security Pacific Corp.	1	0	0	0	0	1	0	2
Thailand Totals (9 Banks)	**4**	**0**	**0**	**0**	**0**	**6**	**3**	**13**
VANUATU								
First Chicago Corp.	1	0	0	0	0	0	0	1

Continued from Page 13

to their operations, and they have launched a public relations campaign through the Foreign Bankers Group to change that perception.

American banks' income statements often are compared with those of domestic banks. In 1985, profits of the eight major Korean commercial banks were negligible. Profits were down partially because the Korean government has asked local banks to extend support loans to troubled heavy industry, chemical makers, overseas construction, and shipping concerns.

Those companies have suffered from the worldwide recession, and their loans are problematic. Total bad loans are estimated at $5 billion for the beleaguered Korean banks.

But the reasons for poor profitability among domestic institutions are of little consequence to anti-American radical students in Korea. Angered by U.S. involvement in the country, they attack or denounce American banks on a regular basis.

Most major U.S. institutions face threats of hostility, but the 20-branch Kor-Am Bank, a joint venture between Bank of America and 10 Korean corporations, has borne the brunt of student unrest. Over the last two years, the bank has weathered attacks, including fire bombings, and sit-ins.

"Whenever anti-Americanism rears its head, Kor-Am gets hit," says Arjun Mathrani, general manager of Chase Manhattan Bank's branch in Seoul.

"Foreign banks have to be sensitive to the radical element. If things go badly for Korean constitutional reform, the radicals turn around and blame America and its symbols. We have to keep a low profile and tight security," he says.

Walking a Fine Line

American banks also walk a fine line with the Korean government. Recently, Korean tax officials targeted foreign-bank profitability to enrich the country's coffers. Under revised guidelines the banks will be forced to pay tens of millions of dollars in retroactive taxes.

After studying taxation laws in other countries, Korea's tax department is convinced that foreign banks have allocated too many head office and offshore loans expenses while deducting interest paid on money borrowed from other branches.

"The foreign banking community feels it has been handled rather poorly," says Mr. Mathrani of Chase, one of the banks currently under audit. "They [Korean tax officials] don't really understand how foreign banks operate. We believe that at least two of the points they have made are in violation of the U.S.-Korea tax treaty."

And Mr. Clark of Security Pacific says, "The tax system is considered narrow and unfair. If we borrow money for a Korean loan from one of our branches, the authorities believe it is less than LIBOR (London Interbank Offer Rate) and disallow one-sixteenth of a percent of interest expense. That hurts, given that our branch borrows at LIBOR from other Security Pacific profit centers."

Foreign operations are scrutinized closely by the Korean government, which is trying to shelter failing domestic banks from competition. Financial deregulation is on the way, but many foreign bankers wonder what role they will play when the government decides how the new system will be set up.

Morgan Guaranty Trust is one bank that has reacted strongly to the Korean financial environment. Effective at the end of 1986, Morgan will close its Seoul banking office. Though the bank has realized profits ($2.8 million in 1985), it has decided to handle Korean business through a representative office.

With new market forces at play, conflict between the various factions is causing problems for regulators trying to liberalize financial markets.

Domestic and foreign banks, security firms, leasing companies, and merchant banks are all battling to protect and enlarge their territories. The arguments range from positions on universal banking to the lifting of onerous foreign exchange regulations. (Foreign banks are restricted to making domestic loans in won.)

Wary of Foreigners

Domestic banks are wary of any foreign-bank foray into their realm, and, indeed, analysts portray the domestic banks as easy victims for the sophisticated foreign banking community.

"The Korean government is committed to liberalizing financial markets," says John Torp, Bank of America vice president and chairman of the Korean Foreign Bankers Group. "One-stop banking would definitely be an attractive proposal, but most of us are looking for national treatment — the right to do all the things local banks do.

"For example, we want to open more branches, properly secure lending, issue CDs, and have access to the commercial note discount window."

A. Ewan R. Copeland, vice president of Citibank, the largest foreign bank in Korea with $1.4 billion in assets, says, "Whatever the government allows us to do we will try. The return does not matter if we feel we are contributing to the opening of Korean financial markets. There are many smaller banks which come in to make money and leave when there is any sign of trouble. As a big bank, we have to stay and play."

American bankers desire many changes in the Korean business environment. Basically, they want to expand from traditional financing and trade services to handling fee-based business and attracting won deposits.

Foreign banks had been allowed to hold $15 million worth of won, but that amount has been reduced to $10 million. As a result, foreign banks are unable to fund properly, which is perhaps the most common problem for American banks.

Bank of Korea permits two main sources of funding: converted capital — from U.S. dollars to won — and a limited currency swap facility. Though the government guarantees a swap

JOHN TORP Photo:David Lake

margin of about 75 basis points, any excess won accumulated by a foreign bank is deposited with Bank of Korea.

When the central bank finds a counterparty — someone to take the other side of a swap — the foreign bank is automatically expected to accept the risk of the chosen recipient.

"Most foreign banks show a solid growth pattern until funding runs out," says Mr. Clark of Security Pacific.

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Diners Club Caters to Korea

BUILDING ON FAR EASTERN retail experience, Citicorp is looking to attract affluent Koreans for its newly established Diners Club travel and entertainment card.

The Korean government allowed the entrance of international credit cards into the country's consumer market two years ago.

Since then, American Express and Diners Club have moved in to handle overseas transactions by Koreans, while Visa and MasterCard have expanded their ties with local banks to provide a complete credit card package.

"Diners Club has attracted some 10,000 customers, and we are hoping to expand that to 20,000 by year end," says Julio Leung, general manager of consumer services for Citicorp Korea.

"It's been a tough two years, but it's worthwhile. Look at the macro-dimensions of the market. Though they are not the same as Japan and the U.S., if you take the cities of Pusan and Seoul, there is a potential of 600,000 cards," he says.

Citicorp believes that success in the Korean credit card market will come with time. As the country becomes wealthier and its population travels more, there will be greater demand for the card.

Investment in customer service outlets, accessible branches, and well-planned advertising will dictate which company is in a position to take the most advantage of future demand.

"In this market, there are more wealthy clients than most people realize," says Mr. Leung. "For example, we have found that there are 10,000 Korean students registered in U.S. schools. That means there are 10,000 parents rich enough to pay for such an education. These families need to be served properly by a comprehensive card."

Direct mail has been the main marketing tool for Diners Club, which purchases mailing lists to pinpoint demographic groups. And since Korean wages are relatively low, the cost of employing a large sales force is not prohibitive. Thus, direct-mail campaigns often are followed up by telephone marketing and personal visits to prospective cardholders.

Still, some believe the market for international credit cards in Korea is limited. Given foreign exchange controls restricting leisure travel, only a certain number of businessmen are permitted to visit abroad. The typical Diners Club client tends to be an upscale businessman who has either traveled internationally or has family overseas.

The foray into the retail market by Diners Club is advance work for other Citibank strategies. If the card attracts 600,000 members, the bank will try to convert the card users into customers for banking services, including checking and savings, mortgage loans, and foreign exchange transactions.

"Citicorp wants to cross-sell banking services to cardholders," says Mr. Leung. "By leveraging off the more established Diners Club business, we won't be forced to hit the streets to look for all our clients."

So far, the Korean authorities have allowed Citibank to set up only two branches. But the bank's management would like to obtain licenses for at least 10 branches, with Seoul as the focus of attention.

Currently, the bank's retail business is losing money because of start-up costs. But, in the future, Citibank hopes to match the success it previously achieved in Hong Kong. With close to 40 outlets established during more than 25 years of business, the Hong Kong retail network is the bank's fourth-largest network worldwide.

— David Lake

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US Banks in the Pacific Rim

Based on Data for Dec. 31, 1985

Compiled by American Banker Copyright 1986

	Branches	Banks	Merch.	Fin. Co.	Invest.	Rep.	Other	Total
CITICORP								
Australia	0	7	0	0	0	6	88	101
China	0	0	0	0	0	2	2	4
Hong Kong	31	2	0	0	0	0	22	55
Indonesia	2	0	0	0	0	0	1	3
Japan	6	0	0	0	0	0	56	62
Korea	2	0	0	0	0	0	2	4
Malaysia	3	0	0	0	0	0	1	4
Philippines	3	37	0	0	0	0	21	61
Singapore	4	1	0	0	0	0	9	14
Taiwan	1	0	0	0	0	0	5	6
Thailand	1	0	0	0	0	0	2	3
TOTALS	**53**	**47**	**0**	**0**	**0**	**8**	**209**	**317**
BANKAMERICA								
Australia	0	0	1	0	0	1	2	4
Brunei	2	0	0	0	0	0	0	2
China	0	0	0	0	0	3	0	3
Hong Kong	9	0	1	0	1	0	1	12
Indonesia	2	0	0	1	0	0	0	3
Japan	2	0	0	1	0	0	1	4
Korea	2	0	0	0	0	1	1	4
Malaysia	1	0	0	1	0	0	1	3
Philippines	1	0	0	1	0	0	1	3
Singapore	1	0	1	1	0	0	1	4
Taiwan	1	0	0	0	0	0	1	2
Thailand	1	0	0	0	0	0	1	2
TOTALS	**22**	**0**	**3**	**5**	**1**	**5**	**10**	**46**
CHASE MANHATTAN								
Australia	0	1	0	0	0	1	2	4
China	0	0	0	0	0	1	0	1
Guam	1	0	0	0	0	0	0	1
Hong Kong	1	0	1	0	0	0	19	21
Indonesia	1	0	0	1	0	0	1	3
Japan	1	0	0	1	0	0	2	4
Korea	1	0	0	0	0	0	1	2
Malaysia	1	0	0	0	0	0	0	1
Philippines	1	0	0	0	0	0	0	1
Singapore	1	0	1	0	0	0	2	4
Taiwan	1	0	0	0	0	0	0	1
Thailand	1	0	0	0	0	0	0	1
TOTALS	**10**	**1**	**2**	**2**	**0**	**2**	**27**	**44**
MANUFACTURERS HANOVER								
Australia	0	0	1	1	0	1	0	3
China	0	0	0	0	0	2	0	2
Hong Kong	1	0	1	2	0	0	0	4
Indonesia	0	0	0	1	0	1	0	2
Japan	2	0	1	1	0	0	0	4
Korea	1	0	0	4	0	0	0	5
Malaysia	0	0	0	0	0	1	0	1
Philippines	1	0	0	0	0	0	0	1
Singapore	1	0	0	0	0	0	0	1
Taiwan	1	0	0	1	0	0	0	2
Thailand	0	0	0	0	0	1	0	1
TOTALS	**7**	**0**	**3**	**10**	**0**	**6**	**0**	**26**
J.P. MORGAN & CO.								
Australia	0	0	1	0	0	0	0	1
Hong Kong	1	0	1	0	0	0	1	3
Indonesia	0	0	0	0	0	1	0	1
Japan	1	0	0	0	0	0	1	2
Korea	0	0	0	0	0	1	0	1
Malaysia	0	0	0	0	0	1	0	1
Philippines	0	0	0	0	0	1	0	1
Singapore	1	0	1	0	0	0	0	2
Taiwan	1	0	0	0	0	0	0	1
TOTALS	**4**	**0**	**3**	**0**	**0**	**4**	**2**	**13**
CHEMICAL NEW YORK								
Australia	0	0	1	0	0	0	0	1
China	0	0	0	0	0	1	0	1
Hong Kong	1	0	1	1	0	0	0	3
Indonesia	0	0	0	1	0	1	0	2
Japan	1	1	1	2	0	1	0	6
Korea	1	0	1	0	0	0	0	2
Malaysia	0	1	0	0	0	1	0	2
Philippines	1	0	0	0	0	0	0	1
Singapore	1	0	1	1	0	0	0	3
Taiwan	1	0	0	0	0	0	0	1
Thailand	0	0	0	0	0	1	0	1
TOTALS	**6**	**2**	**5**	**5**	**0**	**5**	**0**	**23**
SECURITY PACIFIC								
Australia	0	0	1	0	1	0	0	2
Hong Kong	16	1	0	2	1	0	1	21
Japan	1	0	1	2	1	1	0	6
Korea	1	0	0	0	0	0	0	1
Macao	1	0	0	0	0	0	0	1
Malaysia	1	0	0	0	0	0	0	1
New Zealand	0	0	1	0	0	0	0	1
Philippines	1	0	0	0	0	0	0	1
Singapore	2	1	1	1	1	0	1	7
Taiwan	0	0	0	0	0	1	0	1
Thailand	1	0	0	0	0	1	0	2
TOTALS	**24**	**2**	**4**	**5**	**4**	**3**	**2**	**44**
BANKERS TRUST								
Australia	0	1	0	0	0	0	0	1
Hong Kong	1	0	1	0	0	0	0	2
Japan	1	0	1	0	0	0	0	2
Korea	1	0	0	0	0	0	0	1
Philippines	1	0	0	0	0	0	0	1
Singapore	1	0	1	0	0	0	0	2
Taiwan	1	0	0	0	0	0	0	1
TOTALS	**6**	**1**	**3**	**0**	**0**	**0**	**0**	**10**

	Branches	Banks	Merch.	Fin. Co.	Invest.	Rep.	Other	Total
FIRST INTERSTATE BANCORP								
Australia	1	0	0	0	0	1	0	2
China	0	0	0	0	0	1	0	1
Hong Kong	2	0	1	0	0	0	0	3
Indonesia	0	0	0	0	0	1	0	1
Japan	2	0	0	0	0	0	0	2
Philippines	1	0	0	0	0	0	0	1
Singapore	1	0	0	0	0	0	0	1
Taiwan	1	0	0	0	0	0	0	1
Thailand	0	0	0	0	0	1	0	1
TOTALS	**8**	**0**	**1**	**0**	**0**	**4**	**0**	**13**
FIRST CHICAGO								
Australia	0	1	1	0	0	1	0	3
China	0	0	0	0	0	1	0	1
Hong Kong	1	0	1	0	0	0	1	3
Indonesia	0	0	0	0	0	1	0	1
Japan	1	0	0	1	0	0	0	2
Korea	1	0	0	0	0	0	0	1
Philippines	0	0	0	0	0	0	1	1
Singapore	1	0	1	0	0	0	1	3
Vanuatu	1	0	0	0	0	0	0	1
TOTALS	**5**	**1**	**3**	**1**	**0**	**3**	**3**	**16**
MELLON BANK								
Australia	0	0	1	0	0	2	0	3
Hong Kong	1	0	0	0	0	0	0	1
Japan	1	0	0	0	0	0	0	1
Korea	0	0	0	0	0	1	0	1
Philippines	0	0	0	0	0	1	0	1
Taiwan	0	0	0	0	0	1	0	1
TOTALS	**2**	**0**	**1**	**0**	**0**	**5**	**0**	**8**
CONTINENTAL ILLINOIS								
Australia	0	0	0	0	0	1	0	1
Hong Kong	1	0	0	0	0	0	1	2
Indonesia	0	0	0	0	0	1	0	1
Japan	2	0	0	0	0	0	0	2
Korea	1	0	0	0	0	0	0	1
Philippines	0	0	0	0	0	1	0	1
Singapore	1	0	0	0	0	0	1	2
Taiwan	1	0	0	0	0	0	0	1
Thailand	0	0	0	0	0	1	0	1
TOTALS	**6**	**0**	**0**	**0**	**0**	**4**	**2**	**12**
WELLS FARGO & CO.								
Hong Kong	1	0	0	0	0	0	0	1
Japan	1	0	0	0	0	0	0	1
Korea	1	0	0	0	0	0	0	1
Singapore	0	0	0	0	0	1	0	1
TOTALS	**3**	**0**	**0**	**0**	**0**	**1**	**0**	**4**
BANK OF BOSTON								
Australia	0	0	3	0	0	1	0	4
Hong Kong	1	0	0	0	0	0	1	2
Japan	1	0	0	0	0	0	0	1
Korea	1	0	0	0	0	0	0	1
Philippines	1	0	0	0	0	0	0	1
Singapore	1	0	0	0	0	0	0	1
Taiwan	1	0	0	0	0	0	0	1
TOTALS	**6**	**0**	**3**	**0**	**0**	**1**	**1**	**11**
MARINE MIDLAND								
Hong Kong	0	0	0	0	0	1	1	2
Japan	0	0	0	0	0	1	1	2
Korea	0	0	0	0	0	1	0	1
Philippines	0	0	0	0	0	1	0	1
Singapore	0	0	0	0	0	1	1	2
TOTALS	**0**	**0**	**0**	**0**	**0**	**5**	**3**	**8**
REPUBLICBANK								
Japan	0	0	0	0	0	1	0	1
Korea	0	0	0	0	0	1	0	1
Singapore	1	0	0	0	0	0	0	1
Taiwan	0	0	0	0	0	1	0	1
TOTALS	**1**	**0**	**0**	**0**	**0**	**3**	**0**	**4**
INTERFIRST								
Japan	0	0	0	0	0	1	0	1
Singapore	1	0	0	0	0	0	0	1
IRVING BANK								
Australia	0	0	1	0	0	1	0	2
Hong Kong	1	1	0	0	0	0	0	2
Japan	2	0	0	0	0	0	0	2
Philippines	0	0	0	0	0	1	0	1
Singapore	1	0	1	0	0	0	0	2
Taiwan	1	0	0	0	0	0	0	1
Thailand	0	0	0	0	0	1	0	1
TOTALS	**5**	**1**	**2**	**0**	**0**	**3**	**0**	**11**
NORWEST								
Hong Kong	0	1	0	0	0	0	0	1
TEXAS COMMERCE								
Japan	0	0	0	0	0	1	0	1
NCNB								
Australia	0	0	1	0	0	1	0	2
Hong Kong	1	0	0	0	0	0	1	2
PNC FINANCIAL								
Australia	0	0	1	0	0	0	0	1
Hong Kong	0	0	0	0	0	0	1	1

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"Once you've lent out all your won under swap and capital limitations, the only thing to do is place a call on the won option market, which goes to 15 days. If a customer wants to borrow for six months, you must risk refunding every 15 days or convert more capital. If you decide to bring in more capital, then there is the exchange risk. Since opening in 1983, our capital has dropped $400,000 because of currency devaluation," he says.

And Mr. Mathrani of Chase says, "When we swap our dollars with Bank of Korea, there is little currency risk. But the country risk is substantial. If they can't give us back our dollars, we have another Brazil on our hands. We need to increase domestic won funding to minimize our risk."

If American banks are to have a greater profile in the local market, they will have to adhere to some concessions. One plan currently under discussion is an increase in mandatory lending to small and medium-size Korean businesses to 35% of incremental loans from 25%.

"The cost of growth is great if we have to increase exposure to small and medium-size businesses," says Mr. Mathrani. "In the U.S., a company that size would have to give substantial collateral to obtain loans from local branches. Yet, with the alien property law forbidding us to make proper use of Korean collateral, the exposure is dangerous."

Regulators are contemplating a two-tiered system for those banks not interested in national treatment and all that it entails. Foreign banks currently face fewer restrictions than local banks. Giving them national treatment would dramatically change the business environment, due to the restrictions that would be added.

There are two classes of American banks in Korea. One class, which is looking for national treatment, arrived in Korea the early 1960s. It includes Citibank, Bank of America, and Chase. The banks now have staffs of 250 entrenched in wholesale, middle market, and some retail activity.

The vast majority of American banks in Korea, however, belong to the second class. It includes a group of smaller banks that opened branches between 1975 and 1983 and deal strictly in wholesale lending to top corporations. The group includes Security Pacific, Chemical Bank, and First Interstate.

Regardless of what legislators decide to do in Korean financial markets, all the participants in the markets know that the key to future success lies in the direction of securitized lending.

Korean financial needs are changing as fast as the country itself. Following a worldwide trend, sovereign and corporate borrowers are beginning to infiltrate international debt markets to meet obligations. In the last couple of years, the level and complexity of these offerings have increased.

With the Korean government's blessings, Samsung Electronics offered $20 million in convertible bonds on the Euromarket in the beginning of 1986. The dollar amount was low, but the occasion was historic.

The issue gave foreign investors their first shot at directly buying a Korean company's stock on the local market. Though the price of conversion was astronomical by some standards, investors flocked to the issue after an initial period of disdain.

Daewoo Heavy Industries Co., one of Korea's most important companies and the leader in the Daewoo group, was the second company into the convertible bond market. Its $40 million Euromarket offering is the largest to date; the issue was handled by Nomura International; Goldman, Sachs & Co.; and Daewoo Securities.

"The government is allowing convertible bonds as a stepping stone to foreign investors," says Kyung Hoon Lee, president of Daewoo Heavy Industries.

Since Samsung's success, Daewoo Heavy Industries and Yukong Co. have entered the convertible bond market. Yet, the market has slowed, as Korean officials have indicated they still are not ready to implement a complete capital liberalization program. To keep foreigners from flooding local markets, the government is limiting the amount of overseas financing.

Capital market activity has led many bankers to look for merchant banking opportunities.

Bankers Trust, with close to 70% of its business in capital markets products, boasts of handling more than 50% of all Korean interest and currency swap transactions.

"Until now," says Keun-Sam Lee, vice president of Bankers Trust's Korean branch, "Korean banks have been the country's sophisticated capital market players. Now the Korean corporate client is beginning to use diversified instruments. As long as political stability is maintained, we will see an ever-increasing number of Korean corporations in this market. But, competition for this business is fierce." ■

Korea Bets on Triple C

THEY CALL IT the Triple Crown in Korea. Low interest rates, low oil prices, and the low value of the Korean won against the yen and dollar are expected to stimulate Korea's economy, as the country's annual Gross National Product (GNP) growth is forecast to average 7% until 1990.

A booming South Korean economy has made the country one of the most profitable regions for American banks in the Far East. Boasting the highest external debt in Asia — estimated to rise from $47.4 billion in 1986 to $60 billion by the end of the decade — Korea has impressed international lenders with its debt-service record.

That does not mean there are no dark clouds on the horizon. Not even the most optimistic banker would deny that Korea is without risk.

Twenty-five miles from downtown Seoul, North Korean soldiers aggressively patrol the border. Internally, Korea's president, Chun Doo Hwan, has yet to come up with an acceptable constitution.

And, with protectionist sentiment still running strong in the U.S. Congress, Korea could suffer a severe downturn if borders to its most lucrative market are shut.

Politics is a subject most Koreans prefer not to discuss, but trade is fair game. The United States is Korea's largest trading partner, with volume having reached $17.2 billion in 1985, and increasing at an annual rate of 25%.

"Protectionism is a big concern," says Kyung Hoon Lee, president of Daewoo Heavy Industries, one of the oldest industrial concerns in Korea.

"Though many believe Korea no longer fits developing-world status, this country needs support from trading partners. We are not wealthy from exports like Japan [is]. Korea ran a $880 million trade deficit last year, and 6% of our GNP goes to defense," he says.

While 60% of the nation's GNP is derived from trade, the United States receives 40% of Korea's $32 billion of exports. Though Korea accounts for only 3.2% of the total U.S. trade deficit, the country feels that it has suffered from the success of Japan.

Observers like to point out that over the last 25 years of trade with the United States, Korea ran a deficit in 21 of those years. To counteract protection-

Merchant Bank Blossoms

SAEHAN MERCHANT Banking Corp., a joint venture among competing financial institutions from Korea, America, Japan, and Britain, has become one of Korea's most profitable merchant banks.

As a merchant bank, Saehan does not lend out its own funds. Instead, it specializes in providing various financial services, such as underwriting new issues and giving advice on portfolio management.

Established in 1977, Saehan has domestic-securities, investment, trust, and short-term-finance operations, as well as leasing and international operations. In 1985, the merchant bank had assets of $326 million — up 16% from 1984's figure — and revenues of $56 million and net income of $5 million.

The firm is made up of 10 shareholders: 30% of the company stock is owned by Korean Development Bank; 29.5% by Chemical International Finance; 10% by Korean Exchange Bank; 10% by Daewoo Securities and Lucky Securities; 19.5% by Industrial Bank of Japan, Long Term Credit Bank, Nomura Securities, and Yamaichi Securities; and 1% by Hill Samuel.

"Saehan's diverse shareholder base gives management a better understanding," says J. Patterson Cooper, executive vice president of Saehan and a former member of Chemical Bank.

"Though merchant banks in Korea are profitable, most have adopted joint ownership to spread the perceived risk and to get around restrictive legislation. As shareholders, we all have a common purpose and support our strategy with advice and money," he says.

A merchant banking license is a much-sought-after item in Korea. There are only six merchant banking institutions in the country, and the Korean government has not granted a new license since 1978.

With permission to operate in this business, foreign banks can reduce their risk by augmenting earnings with fee-based income. Although merchant bank involvement in the Korean economy is strictly regulated, merchant banks have an easier time attracting won funds than do foreign banks.

"Foreign banks have a more limited license," says Mr. Cooper. "Their access to the won market is limited by Bank of Korea, and they don't have the instruments to compete with local banks for deposits. Merchant banks have Korea's broadest license, and it is reflected in our success."

Merchant banks may be happy with their mandate, but recent reports show that the regulators are not satisfied with the merchant banks' performance. Government dissatisfaction stems from a belief that investment banking is not crucial in the evolution of a new Korean capital market. The government also is displeased with the banks' reliance on short-term money market activity.

Saehan is one of the more diversified players in the merchant banking industry. As a merchant bank, it is important in onshore foreign currency lending. Saehan's deals range from $10 million to $20 million and usually entail the lending of U.S. dollars, Deutsche marks, and Swiss Francs. Though demand for foreign capital is currently low, the bank's foreign currency loans amount to $75 million.

Saehan is active in Korea's $10 billion capital market. The bank is allowed to underwrite bonds and equities, while guaranteeing and managing global issues. Using seven investment trust funds of varying maturities and interest rates, Saehan invests in local money market bonds.

Korea had a record-breaking year in 1985 in terms of corporate bonds issued. The volume increased 76% from the figure for 1984, exceeding $3.5 billion. Saehan was operating in this market at seven times its net worth. But when Korea's Finance Ministry changed the guideline for acceptable exposure to five times a bank's net worth, the merchant bank suffered a decline in business.

Leasing is another area of growth for Saehan. In this intensely competitive business, the bank has been growing 30% annually the past five years. In 1985, Saehan led all local merchant banks, with more than $40 million in signed leasing contracts. And the bank's management intends to build on this strength.

To better compete in the Korean market, Saehan recently increased paid-in capital by nearly 50% — from $11.3 million to $17 million. Regulations permit merchant banks to leverage off net worth at a 20-to-1 ratio. The $110 million leeway achieved by Saehan will be used to increase lucrative participation in equity and debt issues.

— David Lake

Crown

ist sentiment, the country plans to liberalize cigarette, liquor, advertising, insurance, and banking sectors.

"The U.S. constantly demands we open markets, and sometimes we wonder why," says Kyong Hae Kim, publisher of *Business Korea*, an influential magazine of economic and business affairs. "Two years ago Korea was pushed by the U.S. to liberalize the chocolate market. When it was done, the market was snapped up by the Swiss and Japanese manufacturers."

Korea's relations with Japan are just as important as its relations with the United States. Korea was a Japanese colony for about 35 years; there is no love lost between the two countries. Today, they compete for the same markets, and Korea is beginning to come out on top.

Yet, when it comes to importing technology and high-quality raw materials, Korea must turn to Japan. This is becoming a problem for a nation that expects to be Japan's largest competitor. And, with the appreciation of the yen, it is also costing Korean companies hard-earned foreign currency.

"Right now the game is in favor of Japan," says Mr. Lee of Daewoo Heavy Industries. "To change this, Korea has a goal to localize the components industry. We have started to do it, but the cost is high; there are technology limitations and problems with the economies of scale."

Domestically, 1985 was not a banner year for Korean corporations. Recorded sales growth and operating income were the lowest in five years. According to *Business Korea* magazine, 200 of the country's top companies watched combined net profits decline 16.5% from a year earlier, while some companies have a debt-to-paid-in-capital ratio of 10-to-1.

As export products gained from the depreciation of the won, companies dependent on foreign exchange and international financial market borrowings posted huge losses. Korean Air had a foreign exchange loss of $27 million, steel company Yukong lost $25 million, and Hyundai Corp. lost $20 million.

"To grow in the future, Korea must restructure its economy," says Mr. Lee. "One major problem is that our conglomerates are involved in too many businesses. They should allow smaller companies room to maneuver. As for government control of the economy, that has been important until now, but it must change. At heart, Korea is really a capitalist country."

— David Lake